

Message Text

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ACTION INR-07

INFO OCT-01 EUR-12 NEA-09 ISO-00 CIAE-00 NSAE-00 RSC-01

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 1796

INFO AMEMBASSY MOSCOW

S E C R E T SECTION 1 OF 2 CAIRO 1113

EO 11652: GDS

TAGS: CERP

SUBJECT: CERP 0002; HOST COUNTRY RELATIONS WITH COMMUNIST COUNTRIES

REF: STATE A-7841 AND STATE 1453

SUMMARY:

1. MOSCOW PLAYED A WAITING GAME DURING 1974, AS US/EGYPTIAN RELATIONS IMPROVED EARLY IN THE YEAR. EGYPTIAN ATTITUDE TOWARD USSR, REFLECTED IN SADAT'S CRITICISM OF RUSSIAN FAILURES IN SUPPORTING EGYPT DURING OCTOBER WAR, SOFTENED CONSIDERABLY AS DISENGAGEMENT PROCESS SLOWED DOWN AND LARGE SCALE U.S. ASSISTANCE DID NOT MATERIALIZE. IN THE SECOND HALF OF THE YEAR THERE WAS A MARKED WOOING OF SOVIETS IN AN EFFORT TO OBTAIN MUCH NEEDED MILITARY EQUIPMENT AND FURTHER ECONOMIC ASSISTANCE. RUSSIANS WERE NOT FORTHCOMING AND BREZHNEV VISIT TO CAIRO WAS POSTPONED. SADAT THEREUPON AGAIN CRITICIZED MOSCOW FOR ITS FAILURE TO AID EGYPT. FOREIGN MINISTER GROMYKO IS NOW SCHEDULED TO VISIT CAIRO.

2. WHILE THERE HAS BEEN TALK OF ECONOMIC AID FROM USSR, IT APPEARS ONLY MODERATE AMOUNTS ACTUALLY WERE PROVIDED AND THOSE PRIMARILY FOR ONGOING PROJECTS SUCH AS HELWAN STEEL AND
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NAG HAMADI ALUMINUM PLANT. THERE HAVE BEEN NO SIGNIFICANT

NEW DEVELOPMENTS IN EGYPTIAN TRADE WITH COMMUNIST COUNTRIES.
THERE IS LITTLE INFORMATION ON MILITARY ASSISTANCE AND EGYPTIANS
ARE VERY CLOSE-MOUTHED ON SUBJECT. THERE WERE SOME LIMITED
AMOUNTS OF EQUIPMENT DELIVERED IN 1974, PRIMARILY FROM THE
USSR. SEVERAL HUNDRED SOVIET/MILITARY/ADVISOR/TECHNICIANS REMAIN
IN EGYPT.

END SUMMARY

3. FOR EMBASSY APPRAISAL OF EGYPT/USSR RELATIONSHIP DURING
LAST QUARTER 1974, SEE CAIRO 0080.

4. PART I- APPRAISAL OF POLITICAL/ECONOMIC/MILITARY RELATIONS
USSR HAS PLAYED A WAITING GAME IN ITS RELATIONS WITH EGYPT DURING
1974, WHICH WITNESSED US STAR IN ASCENDANCY AS SECRETARY
KISSINGER LABORED TO BRING ABOUT STEP-BY-STEP APPROACH TO SOLVING
THE PROBLEMS. SOVIETS WATCHED AS PRESIDENT NIXON WAS WIDELY
ACCLAIMED ON HIS VISIT TO CAIRO AND LISTENED AS SADAT ROUNDLY
CRITICIZED THEM DURING SPRING AND SUMMER FOR FAILURE IN
ASSISTING EGYPT DURING OCTOBER 1973 WAR. AS US EFFORTS TO BRING
ABOUT BROADER MILITARY DISENGAGEMENT AND POLITICAL SETTLEMENT
BOGGED DOWN, EGYPTIANS ENDEAVORED TO CREATE CLIMATE CONDUCTIVE
TO MOSCOW PROVIDING MUCH-NEEDED MILITARY EQUIPMENT AND SPARE
PARTS FOR RUSSIAN MATERIAL ALREADY ON HAND.

5. RUSSIANS, HOWEVER, HAVE TO DATE NOT AGREED TO SUPPLY MAJOR
ARMS SHIPMENTS NEEDED TO UPGRADE AND MODERNIZE EGYPTIAN
CAPABILITY OR TO PROVIDE ECONOMIC ASSISTANCE WHICH COULD BE
USED TO ALLEVIATE POLITICAL STRAINS CAUSED BY GROWING ECONOMIC
DISTRESS. INSTEAD, SOVIETS CANNILY WHETTED EGYPTIAN APPETITES,
BUT THEN REFUSED TALK TURKEY BEFORE BREZHNEV'S SCHEDULED VISIT
IN MID-JANUARY. IN MEANTIME, SOVIETS DISPATCHED FRIENDSHIP
GROUPS AND RAFT OF ADMINISTRATIVE, TECHNICAL AND ECONOMIC EXPERTS
TO CAIRO IN ORDER TO "PREPARE" FOR BREZHNEV VISIT. GOE, FULLY
AWARE THAT MOSCOW SOUGHT TO USE EGYPTIAN FRUSTRATION WITH USG TO
SERVE SOVIET ENDS, MAINTAINED MARKEDLY FRIENDLY PUBLIC POSTURE
VIS-A-VIS MOSCOW, BUT "SAVED" THEIR ARAB DIGNITY BY REITERATING
IMMUTABILITY OF EGYPT'S "NON-ALIGNED" STATUS.

6. BY NOVEMBER 1974, IT WAS OPEN SECRET HERE THAT SOVIETS
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WANTED TO GET BACK INTO NEGOTIATING PROCESS, AND SAW RECONVENING
GENEVA CONFERENCE AS EASIEST WAY TO DO SO. WE HAVE NO INFOR-
MATION, HOWEVER, THAT MOSCOW USED OPPORTUNITY OF FAHMY'S
DECEMBER VISIT TO GIVE EGYPTIANS ULTIMATUM ON THIS SUBJECT,
EVEN THOUGH DOMESTIC PRESSURE ON SADAT TO GIVE UP ON STEP-BY-
STEP APPROACH HAD BECOME ACUTE WITH PASSAGE OF MONTHS WITHOUT
VISIBLE HOPE OF SECOND STAGE SINAI WITHDRAWAL.

8. ON JANUARY 21, SADAT TOLD VISITING US SENATORS INOUE AND MATHIAS OF HIS IRRITATION WITH SOVIETS. HE HAD ASKED FOR TEN YEAR GRACE PERIOD ON REPAYMENT OF EGYPTIAN DEBTS. HOWEVER, DURING 1974, HE HAD BEEN REQUIRED TO PAY LE 80-MILLION ON EXISTING DEBTS. IN FACT, RUSSIANS HAD DEMANDED OVER LE 100-MILLION. GIVEN EGYPT'S CURRENT STRAINED ECONOMIC SITUATION, HE COULD NOT PAY THIS AMOUNT AGAIN. SADAT SAID HE REALIZED THAT BY PUBLICLY EXPOSING SOVIET FAILURE TO ASSIST EGYPT, HE THOUGH SHOWDOWN WITH THEM WAS LIKELY IN JUNE. AT TIME OF SUBMISSION OF THIS REPORT, ANNOUNCEMENT HAS BEEN RECEIVED OF PROSPECTIVE VISIT BY SOVIET FOREIGN MINISTER GROMYKO TO CAIRO ON FEBRUARY 3.

9. ALTHOUGH EGYPTIANS DO NOT HAVE A NAIVE VIEW OF COMMUNIST BLOC INTERRELATIONS (HENCE EFFORTS TO WOO ROMANIANS), THEY TEND TO CONCENTRATE ON COMMUNISTS WHO HAVE POLITICAL, MILITARY AND ECONOMIC POWER TO HELP THEM, VIZ. USSR. EGYPTIANS HAVE, NEVERTHELESS, ALSO SOUGHT MUCH-NEEDED MILITARY PARTC COMPATIBLE WITH THEIR INVENTORIES WHEREEVER THEY COULD FIND THEM, AND AS A CONSEQUENCE, HAVE ENDEAVORED TO PROCURE THESE FROM OTHER COMMUNIST COUNTIRES, APPARENTLY WITH ONLY VERY LIMITED SUCCESS. PRESIDENT SADAT VISITED ROMANIA ON 27-30 JUNE AND SIGNED TWO AGREEMENTS, ONE FOR COOPERATION IN JOINT PROJECTS AND ANOTHER FOR COOPERATION IN TOURISM. HE ALSO STOPPED IN BULGARIA 30 JUNE-2 JULY, WHERE AMONG OTHER ITEMS (SEE ECONOMIC ASSISTANCE/TRADE BELOW) HE AGREED TO SET UP A JOINT COMMISSION FOR COMPREHENSIVE COOPERATION BETWEEN THE TWO COUNTRIES.

10. ECONOMIC ASSISTANCE
IN CONTEXT OF OVERALL POLITICAL SITUATION DESCRIBED ABOVE. IT IS NOT SURPRISING THAT THERE WAS RELATIVE LACK OF MOVEMENT ON ECONOMIC FRONT. MOST OF ACTIVITY CENTERED ON REAPPORTIONMENT OF UNUTILIZED FUNDS PREVIOUSLY PROVIDED. THUS, VISIT TO MOSCOW OF THEN MINISTER OF INDUSTRY MUHAMMADAIN IN JULY PRODUCED A
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REPORTED \$160-MILLION AGREEMENT TO COVER \$45-MILLION WORTH OF CREDITS FOR EXPANSION OF NAG HAMADI ALUMINUM PLANT(WHICH IS STILL BEING BUILT) AND \$55-MILLION FOR HELWAN IRON AND STEEL COMPLEX. THE REMAINING FUNDS ARE APPARENTLY TO BE USED FOR SPINNING MILLS AND A CEMENT FACTORY. THIS AMOUNT PROBABLY REPRESENT MONEY FROM THE 1971 CREDIT ALLOCATION, OF WHICH ABOUT \$230-MILLION WAS NEVER USED, ACCORDING TO THE GOE.

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INFO OCT-01 EUR-12 NEA-09 ISO-00 CIAE-00 NSAE-00 RSC-01

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TO SECSTATE WASHDC 1797

INFO AMEMBASSY MOSCOW

S E C R E T SECTION 2 OF 2 CAIRO 1113

EGYPTIAN GEN. ORGN. FOR INDUSTRY ESTIMATED IN DECEMBER THAT ABOUT \$270-MILLION REMAINS UNUTILIZED FROM SOVIET LOANS SINCE 1968 OUT OF A TOTAL OF ABOUT \$450-MILLION FROM ALL BLOC COUNTRIES. (HEGAZI TOLD AMBASSADOR JANUARY 27, GOE STILL HAS ABOUT 200-MILLION RUBLE CREDIT TO DRAW UPON).

11. DISCUSSIONS CONCERNING OTHER LOANS HAD BEGUN PRIOR TO EXPECTED BREZHNEV VISIT, AND PRESS MADE REFERENCES TO THREE BILLION RUBLES FOR THE 1976-1980 FIVE YEAR PLAN, AS WELL AS ABOUT \$135-MILLION FOR THE 1975 INTERIM PLAN. IT IS NOT KNOWN IF THESE AGREEMENTS EVER GOT PAST TALKING STAGE, BUT WE ASSUME NEITHER WAS CONCLUDED.

12. WITH RESPECT TO DELIVERIES, WE HAVE LITTLE HARD INFORMATION. FIRST STAGE OF HELWAN IRON AND STEEL EXPANSION WAS COMPLETED IN 1974, BUT MUCH EQUIPMENT FROM USSR REPORTEDLY ARRIVED IN 1973. EFFORTS AT NAG HAMADI ARE WELL BEHIND SCHEDULE; SOURCES SAY EQUIPMENT VALUED AT \$30-MILLION HAS BEEN DELIVERED IN PAST 8-10 MONTHS. ELECTRIFICATION PROGRAM IS SAID TO BE MOVING FORWARD HARDLY AT ALL.

13. OTHER BLOC ASSISTANCE DURING THE YEAR WAS ALSO SPARSE. ROMANIA WAS ALLEGEDLY SOURCE OF \$100-MILLION LOAN IN JUNE, BUT THERE IS GOOD CHANCE THIS ALSO REPRESENTS REALLOCATION OF UNUSED FACILITIES TO WHICH GOE OFTEN REFERS.

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14. TECHNICIANS

AT THE HELWAN PLANT, ACCORDING TO GEN. MGR., THERE ARE 34 SOVIET TECHNICIANS IN RESIDENCE. THE AVERAGE NUMBER OF TDY PERSONNEL OVER 1974 WAS ABOUT 8-10 PER MONTH. EMBASSY HAS NO OTHER INFORMATION ON NUMBERS OF BLOC TECHNICIANS IN COUNTRY OR TRAINEES FROM EGYPT IN BLOC COUNTRIES. SOVIET EMBASSY RECENTLY TOLD US HE ESTIMATES THERE ARE ABOUT 5-6,00 SOVIETS IN EGYPT AT PRESENT TIME, INCLUDING FAMILIES.

15. TRADE

IN MAY AN AGREEMENT WAS CONCLUDED WITH USSR FOR DELIVERIES OF 90,00 TONS OF FERTILIZER, 15,000 TONS OF WOOD PULP, AND 6,000 TONS OF NEWSPRINT, WORTH \$20-MILLION, DURING SECOND HALF OF YEAR. WITH EXCEPTION OF A PROTOCOL, WHICH PRESS REPORTED WAS SIGNED IN CAIRO IN AUGUST PROVIDING FOR AN INCREASE OF 30PERCENT IN NUMBER OF SOVIET VISITORS TO EGYPT IN 1975 OVER 1973(27,000), THERE WERE NO NEW TRADE AGREEMENTS SIGNED IN 1974.

16. TRADE AGREEMENT WITH ROMANIA, WHICH HAS BEEN UNDER DISCUSSION AND FOR WHICH PROTOCOL WAS CONCLUDED IN MAY, WILL PROBABLY BE SIGNED IN FEBRUARY. IT COVERS TRADE BETWEEN TWO COUNTRIES AT LEVEL OF ABOUT \$140-MILLION FOR 1975. WHILE IN ROMANIA IN JUNE, SADAT AND THE ROMANIANS INDICATED HOPE THAT TRADE BETWEEN TWO COUNTRIES WOULD REACH \$400-500 MILLION DOLLARS BY 1980.

ALTHOUGH MEETINGS WERE ALSO HELD WITH CZECHOSLOVAKIA, WHICH HAS A LONG-TERM AGREEMENT SIGNED IN 1973, AND BULGARIA, WE HAVE NOT SEEN ANY INDICATION THAT PAPERS WERE SIGNED. DURING HIS VISIT TO SOFIA, SADAT AND THE BULGARIANS AGREED TO DOUBLE TRADE LEVEL AND CALLED FOR NEXT SESSION OF EGYPTIAN/BULGARIAN ECON AND TECH COOPERATION COMMITTEE TO CONSIDER DRAWING UP TRADE AGREEMENT THROUGH 1980. FYI: FOR FIRST THREE QUARTERS OF 1974, CENTRAL BANK SHOWS TOTAL TRADE (INCLUDING TOURISM, INSURANCE, TRANSPORTATION ETC.) WITH COUNTRIES WITH WHICH EGYPT HAS PAYMENTS AGREEMENTS (WHICH INCLUDE ALL BLOC COUNTRIES PLUS RELATIVELY SMALL PERCENTAGE OF OTHER COUNTRIES) AS REACHING LE 518 MILLION. OF THIS, EXPORT EQUAL LE 328 AND IMPORTS LE 190 MILLION. NO BREAKDOWN BY COUNTRY IS AVAILABLE AT THIS TIME.

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17. MILITARY ASSISTANCE

INFORMATION CONCERNING PROVISION OF MILITARY EQUIPMENT AND TRAINING FROM THE COMMUNIST COUNTRIES IS VERY LIMITED. THE EGYPTIANS ARE VERY CIRCUMSPECT WHEN IT COMES TO THIS SUBJECT AND HAVE BEEN UNWILLING TO DIVULGE INFORMATION. SOME SOVIET EQUIPMENT HAS BEEN RECEIVED SINCE THE BEGINNING OF THE YEAR, LARGELY PARTS ALREADY IN THE PIPELINE. OUR ESTIMATE IS THAT THE AMOUNT OF DOLLAR TERMS IN

LESS THAN 75-MILLION. PARTS ARE BELIEVED TO BE LARGELY FOR ROLLING STOCK. THERE HAVE BEEN EFFORTS BY THE EGYPTIANS TO OBTAIN EQUIPMENT, PARTICULARLY SPARE PARTS COMPATIBLE WITH SOVIET EQUIPMENT FROM ELSEWHERE IN THE COMMUNIST BLOC. RELATIVELY LITTLE HAS BEEN OBTAINED, HOWEVER, TO OUR KNOWLEDGE, ALTHOUGH IN AGGREGATE IT COULD AMOUNT TO \$10-15MILLION. POLAND AND CZECHOSLOVAKIA WERE MENTIONED EARLIER IN YEAR AS POSSIBLE SOURCES OF LIMITED AMOUNTS OF MATERIAL. IT IS POSSIBLE THAT THIS IS EQUIPMENT WHICH WAS CONTRACTED FOR IN PREVIOUS YEARS AND DELIVERED IN 1974.

18. SOVIET NAVAL VESSELS DURING THE YEAR HAVE CALLED AT EGYPTIAN PORTS; MOST RECENTLY, IN DECEMBER, SOVIET CRUISER VISITED ALEXANDRIA. RUSSIAN NAVAL VESSELS CONTINUE TO USE THE FACILITIES AT MERSA MATRUH FOR FUELING AND REPAIRS. REPAIR WORK, HOWEVER, IS LIMITED TO MINESWEEPER-SIZE SHIPS. SOVIET NAVY DID COOPERATE IN OVERALL SUEZ CANAL CLEARANCE EFFORTS, SWEEPING STRAITS OF GUBAL.

19. WITH REGARD TO FOREIGN MILITARY FORCES AND ADVISORS IN EGYPT, BEST ESTIMATE WE CAN MAKE IS THAT THERE ARE PROBABLY 200-300 SOVIET MILITARY ADVISORS/TECHNICIANS IN COUNTRY. THERE IS A NORTH KOREAN FIGHTER SQUADRON BELIEVED TO BE LOCATED IN THE ASWAN AREA, PROBABLY CONSISTING OF SOME TWENTY PILOTS.

20. PART IV A- CULTURAL AND EDUCATIONAL EXCHANGE
(SEE USIS CAIRO MESSAGE NO1, JANUARY 3, 1975).
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